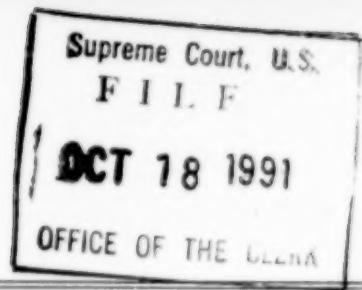


91-971

No. 91-



IN THE
Supreme Court of the United States

OCTOBER TERM, 1991

TWO PESOS, INC.,
Petitioner,
vs.
TACO CABANA INTERNATIONAL, INC., and
TACO CABANA, INC.,
Respondents.

**PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT**

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October 18, 1991

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Questions Presented

The District Court held, and the Court of Appeals affirmed, that Two Pesos' Mexican style restaurants infringed on the trade dress of Taco Cabana's Mexican style restaurants, and that this Mexican decor or trade dress is protectable under the Lanham Act to the same extent as a federally registered trademark. The questions presented are as follows:

1. Whether the Mexican style appearance of a Mexican food restaurant constitutes protectable intellectual property equivalent to a federally registered trademark, even where the restaurant did not, and cannot, show that its Mexican "look" has secondary meaning in the eyes of its customers, so that members of the public associate the restaurant's appearance with that particular restaurant.

2. Whether a business may exercise a monopoly over a "trade dress" consisting, virtually *in toto*, of a combination of admittedly functional features on the ground that those functional features are combined in an "arbitrary" fashion.

List of Parties

The caption of the case in this Court contains the names of all parties to the proceeding in the United States Court of Appeals for the Fifth Circuit, whose judgment is sought to be reviewed. There is no parent or subsidiary company of Two Pesos, Inc. to be identified or listed under Rule 29.1 of the Rules of the Supreme Court of the United States.

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Table of Conventions

The following convention is used in this petition:

"T" [date, page] (trial transcript)

IN THE

Supreme Court of the United States

OCTOBER TERM, 1991

TWO PESOS, INC.,

Petitioner,

vs.

TACO CABANA INTERNATIONAL, INC., and
TACO CABANA, INC.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

Petitioner, Two Pesos, Inc., asks that a writ of certiorari issue to review the judgment entered by the United States Court of Appeals for the Fifth Circuit, entered June 11, 1991.

Opinions Below

The opinion of the court of appeals is reported at 932 F.2d 1113 and reproduced as Appendix A. The final judgment entered by the United States District Court for the Southern District of Texas was not reported, but is reproduced as Appendix B.

Jurisdiction

The judgment of the United States Court of Appeals for the Fifth Circuit is dated, and was entered, on June 11, 1991. That court denied a timely petition for rehearing and suggestion for rehearing *en banc* by order dated and filed July 22, 1991. This petition is filed within ninety days of that date and, therefore, is timely. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1). The United States District Court for the Southern District of Texas had jurisdiction pursuant to 15 U.S.C. § 1121, 28 U.S.C. § 1338, and the doctrine of pendent jurisdiction. The Court of Appeals had jurisdiction pursuant to 28 U.S.C. § 1291 and 15 U.S.C. § 1121.

Constitutional Provisions and Statutes Involved

The United States Constitution, Article 1, § 8 provides in pertinent part:

The Congress shall have power . . .

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

Title 15, section 1125(a), United States Code (1982), Section 43(a) of the Lanham Act, provides as follows:

False designations of origin and false descriptions forbidden

Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.¹

Title 15, section 1052, United States Code (1982), provides in pertinent part:

Trademarks registrable on the principal register

No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it--

. . . (e) consists of a mark which, (1) when applied to the goods of the applicant is merely descriptive or deceptively misdescriptive of them, or (2) when applied

¹ This section was revised by Pub. L. 100-666, Title I, § 132, 102 Stat. 3946, effective November 16, 1989, which date is after the December 30, 1988 final judgment of the District Court.

to the goods of the applicant is primarily geographically descriptive or deceptively misdescriptive of them, except as indications of regional origin may be registrable under section 4 hereof, or (3) is primarily merely a surname;

(f) except as expressly excluded in paragraphs (a), (b), (c), and (d) of this section, nothing herein shall prevent the registration of a mark used by the applicant which has become distinctive of the applicant's goods in commerce. The Commissioner may accept as prima facie evidence that the mark has become distinctive, as applied to the applicant's goods in commerce, proof of substantially exclusive and continuous use thereof as a mark by the applicant in commerce for the 5 years next preceding the date of the filing of the application for its registration.

Statement of the Case

Petitioner, Two Pesos, Inc. ("Two Pesos"), and respondents, Taco Cabana International, Inc. and Taco Cabana, Inc. (collectively, "Taco Cabana"), are competing chains of fast food Mexican restaurants. As the Court of Appeals recited, "Taco Cabana describes its Mexican fast-food trade dress as:

a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme."

Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1117 (1991). See Appendix A.

In the Court of Appeals' words, Two Pesos' founders opened a fast food Mexican restaurant that "adopted a motif essentially consistent with the above description of Taco Cabana's trade dress." *Id.* Alleging that Two Pesos had improperly copied its trade dress, Taco Cabana brought an action in the United States District Court for the Southern District of Texas under Section 43(a) of the Lanham Act and asserting additional claims arising under state law.

The case was tried to a jury, which found that Taco Cabana's trade dress did *not* have secondary meaning, but was, taken as a whole, nonfunctional and inherently distinctive. The jury found that customers "might" confuse a Taco Cabana restaurant with a Two Pesos restaurant, and that Taco Cabana had been damaged by Two Pesos' infringement. On the trade dress infringement claim, the jury awarded Taco Cabana \$306,000 in lost profits, \$628,300 for lost income and nothing for loss of good will. The jury awarded an additional amount of \$150,000 on Taco Cabana's state law claim for trade secret misappropriation. The district court doubled Taco Cabana's trade dress damages to \$1,868,600 and awarded respondent attorneys' fees of \$937,550. *Taco Cabana Int'l, Inc.*, 932 F.2d at 1117-18.

Two Pesos appealed, asserting that Taco Cabana's trade dress could not have been analyzed properly, as evidenced by the jury's inconsistent findings caused or compounded by incorrect legal instructions.² The jury found that Taco

² The entirety of the district court's instruction on inherent distinctiveness reads as follows:

Question number 3 asks you to determine whether Taco Cabana's trade dress is inherently distinctive. Distinctiveness is a term used to indicate that a trade dress

Cabana's trade dress had not acquired any secondary meaning. Therefore, the trade dress did not serve to associate the appearance of Taco Cabana with that particular chain of restaurants. Yet the jury found that Taco Cabana's trade dress was inherently distinctive and, therefore, protectable. Taco Cabana's own witnesses acknowledged at trial that *the only nonfunctional items* in a Taco Cabana restaurant were *the decor and the plants* (T 9/28, 160; 10/20, 19; plaintiffs' exhibit 231). Yet the jury also found that Taco Cabana's trade dress was nonfunctional when viewed in the aggregate. *Id.*

The Court of Appeals rejected Two Pesos assertions and affirmed the judgment of the district court. With respect to the lack of secondary meaning, the court stated that Two Pesos had "ignore[d] the law in this circuit." The court held that a trade dress may be inherently distinctive in the same manner as an trademark and, if so, need not achieve secondary meaning to be protectable. *Id.* at 4174. With respect to functionality, the court reasoned:

[A] particular arbitrary combination of functional features, the combination of

serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco Cabana's trade dress distinguishes its products and services from those of other restaurants and it is not descriptive and not functional, then you should find that Taco Cabana's trade dress is inherently distinctive. If it is shown that Taco Cabana's trade dress does not distinguish its products and services from those of other restaurants, then you should find that Taco Cabana's trade dress is not inherently distinctive.

which is not itself functional, properly enjoys protection.

Id. at 1119.

Reasons for Granting the Petition

I. THIS CASE RAISES IMPORTANT QUESTIONS REGARDING THE SCOPE AND DIRECTION OF FEDERAL TRADEMARK AND UNFAIR COMPETITION LAW.

A. The Court of Appeals' Conclusion that a Mexican "Trade Dress" Is Protectable Even Though It Lacks Secondary Meaning Departs from Established Law in the Remaining Circuits and Sets Trademark and Unfair Competition Law Adrift.

The Court of Appeals' decision pulls the ship of trademark and unfair competition law loose from its moorings. It permits a generic, descriptive Mexican decor, consisting primarily of functional features, to be an "inherently distinctive" and, therefore, protectable trade dress such that secondary meaning -- which the jury found lacking -- need not be shown. Secondary meaning is an association in the consumer's mind between the trademark and the source or origin of the product bearing the mark. In the context of restaurant trade dresses, which are not subject to independent review or registration, a finding of inherent distinctiveness creates untenable business uncertainty regarding what is or is not protectable under the Lanham Act, and so will chill legitimate competitive activity. Therefore, this Court should reject the view of the Fifth Circuit and, consistent with the rulings of other courts of appeals, require that a trade dress have acquired secondary meaning to be protectable.

The lack of secondary meaning, which is inconsistent with a finding of inherent distinctiveness, should be fatal to Taco Cabana's trade dress claim in this context. The Second, Third, Sixth, Eighth and Ninth Circuits require that a trade dress have secondary meaning before it will be protectable. *See, e.g., Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 974 (2d Cir. 1987); *First Brands Corp. v. Fred Meyer, Inc.*, 809 F.2d 1378, 1381 (9th Cir. 1987); *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1141 (3d Cir. 1986); *Profrock Ltd. v. Lasater*, 781 F.2d 129, 132 (8th Cir. 1986); *Kwik-Site Corp. v. Clear View Mfg. Co.*, 758 F.2d 167, 178 (6th Cir. 1985); *see generally* 1 J. McCarthy, *Trademarks and Unfair Competition* § 8:2, at 385 (2d ed. 1984) ("[i]n cases of alleged confusingly similar use of trade dress and packaging, the traditional rule is that proof of secondary meaning is a condition precedent to obtaining protection against such acts . . .").

In *Chevron Chemical v. Voluntary Purchasing Groups*, 659 F.2d 695, 703 (1981), *cert. den.*, 457 U.S. 1126 (1982), the Fifth Circuit, in reversing a district court order denying relief on a Lanham Act claim, expressly disagreed with the foregoing rule:

Some circuit courts, like the district court, have required secondary meaning. *See, e.g., Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299, 303 (2d Cir. 1981); *Keebler Co. [v. Rovira Biscuit Corp.]*, 624 F.2d 366, 378 (1st Cir. 1980)]. We do not agree, however, that secondary meaning must be shown in every trade dress infringement suit. . . .

If the features of the trade dress sought to be protected are arbitrary and serve no function either to describe the product or assist in its effective packaging, there is no reason to require a plaintiff to show consumer connotations associated with such arbitrarily selected features.

Id. The rule in *Chevron* places trade dresses in the highest category of trademark protection. As Professor McCarthy explains:

Arrayed in an ascending order which roughly reflects their eligibility to trademark status and the degree of protection afforded, the categories are: (1) generic terms; (2) descriptive; (3) suggestive; and (4) arbitrary or fanciful.

McCarthy, *supra*, § 11:1, at 433.

Under the rule in the Fifth Circuit, a trade dress may fall into the highest category of protection; that is, it may be so "arbitrary or fanciful" that it is deemed to be "inherently distinctive." This untoward rule permits a trade dress to serve "immediately upon use as a symbol of origin -- that is, as a 'trademark.'" *Id.*, § 15:1, at 656. However, as Professor McCarthy has noted, if a mark is deemed "inherently distinctive," then it is "irrebuttably presumed to have achieved customer recognition and association immediately upon adoption and use," a clear impossibility here. *Id.* As Professor McCarthy also explains: "By definition, 'inherently distinctive' words and symbols need no proof of distinctiveness," and, therefore, do not require secondary meaning to be protectable. *Id.*, § 11:1, at 433. Moreover, in Professor McCarthy's further view, trade dresses are weak marks and are not, by their nature, inherently distinctive, so that proof of secondary meaning is required. *Id.*, § 15:1, at 657. In this case, the Fifth Circuit adopts a contrary and aberrational rule that tips this analysis on its head.

The lowest categories of protection accrue to generic and descriptive marks. In *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 105 S. Ct. 658, 83 L. Ed. 2d 582 (1985), this Court discussed the distinction between generic and merely descriptive marks: "A generic term is one that refers to the genus of which the particular product is a species" and consequently is not registrable, whereas "a 'merely descriptive'

mark . . . describes the qualities or characteristics of a good or service, and this type of mark may be registered only if the registrant shows that it has acquired secondary meaning, *i.e.*, it 'has become distinctive of the applicant's goods in commerce'" (quoting 15 U.S.C. §§ 1052(e), (f)).

This Court noted that the process of registering a trademark at the federal level involves review by the Patent and Trademark Office to determine whether secondary meaning must be shown; and that the successful registrant may rely on the incontestability provisions of the Lanham Act to "quiet title in the ownership of his mark." *Id.*, 469 U.S. at 663. The result, therefore, is to bring a degree of certainty and predictability to both trademark holders, who may rely on the registration process with respect to the need to show secondary meaning, and to interested persons, who are placed on notice of the asserted rights.

No such process applies to the trade dress of a building. The Court of Appeals steers trademark law into murky waters. Without the independent check of requiring proof of secondary meaning, any conglomeration of features and their attending decor is a potentially protectable trade dress; any business that borrows from that trade dress is a potential infringer. With respect to trade dresses, there is no system of independent review, official registration or notice. Under the Court of Appeals' formulation, there is no objective means by which the prudent entrepreneur or business entity, or their legal counsel, can test whether certain aspects of a trade dress may be freely used, or may be "inherently distinctive" and, accordingly, protected by trademark law, even if consumers do not associate the trade dress with the source.

Trade dresses present a greater degree of uncertainty in these regards than other trademarks. Other marks are typically words, names or symbols that either have (i) a "primary meaning" or (ii) are invented and are so arbitrary that they consequently lack any primary meaning. The "primary meaning" of a word trademark is the meaning one would find for the word in everyday use, that is, one that could be found

in a dictionary. If the mark has a primary meaning, then secondary meaning must become attached to the mark if it is to be protectable. If the mark has no primary meaning, then secondary meaning is typically not required. Professor McCarthy explains:

Fanciful marks consist of "coined" words which have been invented for the sole purpose of functioning as a trademark. Such marks comprise words which are either totally unknown in the language or are completely out of common usage at the time, as with obsolete or scientific terms. The fact that lexicographers or devotees of antiquity may recognize the word is irrelevant to the fact that the word is totally unfamiliar to the ordinary consumer.

If, in the process of selecting a new mark, a seller sits down and invents a totally new and unique combination of letters or symbols which results in a mark which has no prior use in the language, then the result is a "coined" or "fanciful" mark.

McCarthy, *supra*, § 11:3, at 436.

Unlike many trademarks, trade dresses do not ordinarily possess a primary meaning, but that does not necessarily mean they are arbitrary and fanciful and therefore protectable as inherently distinctive. This is a point on which the District Court and Court of Appeals became confused. Just because there is no "dictionary of trade dresses" in which to look, in order to learn if there is a primary meaning to overcome, does not mean that primary meaning is not involved or that proof of secondary or *some associational meaning* is not required. To understand why, consider what inherent distinctiveness means, with respect to a trade dress, in the absence of secondary or

associational meaning. First off, the notion of *inherence*, as in "inherently distinctive," is typically absent with respect to a trade dress. The Oxford Universal Dictionary (3d ed. rev. 1963) defines "inherent" to mean existing in something as a permanent attribute or quality. The same dictionary defines "distinctive" as having the ability to distinguish, differentiate or discriminate. Combining these meanings, "inherently distinctive," in regard to a mark, is properly understood to mean that the mark has existing in it, the permanent, implicit ability to distinguish a single source or origin for goods or services from all other sources or origins and do so at the outset or *ab initio*. This is very nearly impossible for a trade dress. Trade dresses rarely have such an inherent capacity, especially in regard to restaurants, because they necessarily include functional, generic and descriptive elements common to other such dresses.

The point is well illustrated by this case: The jury found Taco Cabana's trade dress did not have secondary meaning, but that it was inherently distinctive. Yet the jury's finding of inherent distinctiveness was as to a recognizably "Mexican" and, therefore, descriptive decor. Taco Cabana's Mexican decor, standing alone, conveys information as to the type of food and geographic source of the product sold by the business. The Mexican decor communicates the prospect of Mexican cuisine and is analogous to a sign reading "Mexican food." Restaurants with Mexican decor do not serve Chinese cuisine and restaurants with Chinese decor do not serve Mexican food. As indicated, the Mexican decor of Taco Cabana also identifies the food sold in that restaurant by geographical origin by using decorative items from the same geographical area. Accordingly, to the extent Taco Cabana's restaurant trade dress has a "primary meaning," it is -- "this is a Mexican restaurant which serves Mexican food" -- it must have secondary meaning to be protectable and cannot, therefore, be inherently distinctive.

The inadequate jury instruction on inherent distinctiveness is reproduced in the Statement of the Case herein. That instruction entirely fails to instruct on the idea of *inherent*

distinctiveness. The instruction fails to explain that, to be *inherently* distinctive, Taco Cabana's trade dress must have, as one of its permanent, implicit and immutable characteristics, the ability to distinguish a single source or origin from all others. The substance of the concept was lost. Moreover, under a proper understanding, no instruction on inherent distinctiveness would have been required or even proper. Outside the Fifth Circuit, the lack of secondary meaning would have fatally resolved the question of distinctiveness against Taco Cabana's claims.

Without instruction on these elements and principles, the notion of inherent distinctiveness is susceptible, in the Fifth Circuit, only to the subjective reaction of the viewer, much like Justice Stewart's oft-quoted test for obscenity: "I know it when I see it." *Jacobellis v. Ohio*, 378 U.S. 184, 197, 84 S. Ct. 1676, 1683, 12 L. Ed. 2d 793 (1964) (concurring opinion). However, pornography is not promoted by the federal government, whereas free competition is. A business competitor should not have to endure a jury trial to find whether the trade dress he thought useful is protected by the Lanham Act. In dispensing with the requirement that secondary meaning be shown, the Court of Appeals opens, and sends Taco Cabana through, a door wide enough to make any trade dress protectable based on only subjective, arbitrary judgments.

It is respectfully submitted that the better view, and the one more consistent with the policies embedded in United States intellectual property law, would be to hold that the absence of secondary meaning of a trade dress precludes finding inherent distinctiveness. As stated in *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 843 (9th Cir. 1987):

Fuddruckers [a self-service hamburger restaurant], moreover, has not offered this court a definition of what "inherently distinctive" in the trademark sense might mean in the absence of secondary meaning. If purchasers do not, in fact, associate Fuddruckers's trade dress with a

source of restaurant services, then it difficult to see how that trade dress distinguishes Fuddruckers' service from the service of others.

826 F.2d at 843. As Professor McCarthy has written:

[T]he buyer is not confused unless he is looking for a package he recognizes and picks another in his confusion. Consequently, a buyer who does not recognize plaintiff's package appearance and does not distinguish it from any other, cannot be confused.

McCarthy, *supra*, § 8:2, at 232.³

In *Fuddruckers*, the Ninth Circuit panel also suggested the nonsensicality of a finding of inherent distinctiveness in the absence of secondary meaning. The notion is, as the *Fuddruckers* court further explained:

If, as *Fuddruckers* argues, its claimed trade dress is *inherently distinctive*, the further requirement of a showing of secondary meaning would be superfluous.

Id. (emphasis in original).

Moreover, requiring that a trade dress have secondary meaning to be protectable would further the view expressed by this Court in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157, 109 S. Ct. 971, 981, 103 L. Ed. 2d 118 (1989), that trademark law is permitted to regulate unpatented trade

³ It is interesting to note that Professor McCarthy served as an expert witness for Taco Cabana at trial, but was dismissed without Two Pesos having had an opportunity to cross examine him.

dresses only "to protect[] consumers from confusion as to source (emphasis in original)." Where this purpose is not furthered, as when secondary meaning is lacking, then a finding of trademark infringement conflicts with the broader federal policy of free competition. In *Bonito Boats*, the Court quoted approvingly Judge Learned Hand's statement:

The plaintiff has the right not to lose his customers through false representations that those are his wares which in fact are not, but he may not monopolize any design or pattern, however trifling. The defendant, on the other hand, may copy plaintiff's goods slavishly down to the minutest detail: But he may not represent himself as the plaintiff in their sale.

484 U.S. at 157 (quoting *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 301 (2d Cir. 1917)). In jettisoning the need for a showing of secondary meaning before a trade dress may be protectable, the Court of Appeals has thrown Judge Hand's balancing principle overboard and replaced it with nothing.

This Court should grant certiorari to review the judgment of the Court of Appeals and determine whether it, or the alternative view discussed in *Fuddruckers*, is the law throughout the United States.

B. The Court of Appeals' Extension of Protection to Functional Features Effectively Grants Exclusive and Perpetual Rights to Features That Are Not Protectable under Patent Law or Traditional Trademark Law.

Two Pesos has been held liable, under the Lanham Act, for infringing the trade dress of another Mexican restaurant, even though that restaurant, Taco Cabana, has admitted that its trade dress is comprised, virtually *in toto*, of functional features. The decision of the Court of Appeals, affirming this conclusion,

is that combinations of functional features may be protected. This conclusion seriously unsettles the boundaries of trademark and patent law.

As noted by the Court in *Bonito Boats*, 489 U.S. at 164, "Where an item in general circulation is unprotected by patent, 'reproduction of a functional attribute is legitimate competitive activity'" (quoting *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. at 844, 863 (1982)). In striking down a Florida statute barring the use of a direct molding process to copy unpatented boat hulls, the Court stated that "[t]he efficient operation of the federal patent system depends upon substantially free trade in publicly known, unpatented design and utilitarian conceptions." 489 U.S. at 141. Federal policy "favor[s] free competition in ideas which do not merit patent protection," *id.*, and there is nothing inherently improper in copying a competitor's product: "To a limited extent, the federal patent laws must determine not only what is protected, but also what is free for all to use." *Id.* at 151.

The Court also noted that "[t]rade dress is, of course, potentially the subject matter of design patents." *Id.* at 154. Consistent with the view that there be free competition with respect to useful ideas, the functional aspects of a trade dress are protectable through patents, if at all. As stated in *Bonito Boats*, "the common-law tort of unfair competition has been limited to protection against copying of nonfunctional aspects of consumer products which have acquired secondary meaning such that they operate as a designation of source." 489 U.S. at 157. Functionality is a defense to a suit under Section 43(a) of the Lanham Act. See *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 851 & n. 10, 102 S. Ct. 2182, 2187 & n. 10, 72 L. Ed. 2d 606 (1982).

The Court of Appeals' opinion departs from these principles. Two Pesos copied restaurant features of the Taco Cabana restaurants that are functional, but not protected by any patent. Indeed, the originator and founder of Taco Cabana admitted several times at trial that all of the features of Taco Cabana's trade dress were functional except for the

plants and decor. [T 9/28, 160; 10/20, 19 & Plaintiffs' Exhibit 231] Nevertheless, the court held that:

[A] particular arbitrary combination of functional features, the combination of which is not itself functional, properly enjoys protection.

The teaching of this ruling is, if one aggregates enough functional features, then the totality may be forever protected under trademark law, even though a limited term patent is unavailable to protect any one of those features, much less their combination.

The impracticality of applying the Court of Appeals' rule is demonstrable. First, it is inconceivable how functional features might be combined in an "arbitrary" manner. Under the previously cited definition, a "functional" feature is one that is essential for a business to compete effectively, or one that affects the cost or quality of the product. Therefore, if each feature of a competitor's product is functional, then -- by definition -- the same features will be needed by an efficient business to compete in an effective manner. The selection of functional features is not arbitrary, but rather is guided by the concept of the product being generated.

In *Inwood Laboratories, Inc.*, 456 U.S. at 851 n. 10, a Lanham Act case, this Court stated that "[i]n general terms, a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article." In *Two Pesos*' case, these features included (a) a narrow rectangular restaurant shape, induced by the sale of commercial property by the lineal frontage foot; (b) a front patio dining area, partly under roof, with a patio area capable of being closed off in bad weather by overhead garage doors that require no dining room area swing space, (c) an angled order counter, to accommodate a longer line, necessitated by the narrowness of the restaurant on the dimension of its frontage; and (d) awnings and umbrellas to provide shade for restaurant patrons on the patio areas.

Also, Two Pesos selected its colors and decor to be Mexican. Two Pesos' -- and Taco Cabana's -- trade dress is, in essence, the Mexican cabana style of restaurant seen up and down the western coast of Mexico, with garage doors added for inclement weather. Each feature has its own, independent logic, and the combination of these features is not arbitrary, but rather is guided by the unprotectable business idea being implemented: a Mexican cabana restaurant with patios. At root, the Court of Appeals' statement about so-called arbitrary combinations of functional features amounts to a guise for granting protection to a business concept, an obvious, express goal of the restaurateurs who were Taco Cabana's expert witnesses.

To further examine the practical difficulty in the Court of Appeals' reasoning, consider a fast food hamburger franchise and compare the combination of functional features of, say, a "McDonald's" with a "Burger King." Each typical McDonald's restaurant has an outside "menu" leading to a speaker and microphone, where a drive up customer may place an order to be picked up at a window around the corner. The typical restaurant also has an elongated counter with multiple cash registers and a long, overhead menu to facilitate ordering and speed of delivery. In the highly competitive field of fast food, each functional feature adopted -- with its added competitive advantage -- ends up being quickly copied by other competitors.

The functional features of a typical McDonald's are not combined in an "arbitrary" manner, but rather were guided by a business concept -- one that has been successful for not only McDonald's, but also many of its competitors. If the first few McDonald's restaurants had been declared by a court to be a protectable "combination" of functional features, then the field of McDonald's competitors would undoubtedly be very much smaller today. That hypothetical ruling is the ruling which Two Pesos faces.

Traditional patent, copyright and trademark law is careful to distinguish between protectable intellectual property and

unprotectable general "concepts," such as the "Mexican cabana style restaurants" concept involved in this case, or the "fast food hamburger restaurant" concept of the foregoing example. The intellectual property laws of the United States are intended to provide entrepreneurs, inventors and authors with adequate incentive to be creative while, at the same time, not placing undue limits upon free market competition. These competing goals are balanced through an integral relationship between patent, copyright and trademark law. In distorting trademark law to cover aggregations of admittedly functional features, the Court of Appeals' decision has heavily tipped the balance against free competition. The chilling effect of its ruling will immeasurably stifle many would-be competitors and will grant a competitive wind-fall to Taco Cabana.

To obtain 17-year exclusive utility patent rights, an inventor must establish that the invention is useful, novel and nonobvious, in view of all known prior art. 35 U.S.C. §§ 1 *et seq.* This burden is borne in an extensive and rigorous examination process within the United States Patent and Trademark Office. This process can often take several years. Utility patent protection is limited to utilitarian or functional inventions. The effectiveness of federal patent law "in inducing creative effort and disclosure of the results of that effort, depend[s] almost entirely on a backdrop of free competition in the exploitation of unpatented designs and innovations." *Bonito Boats*, 489 U.S. at 151. Moreover, as this Court has noted:

In the [patent] application process, detailed information concerning the claims of the patent holder is compiled in a central location. The availability of damages in an infringement action is made contingent upon affixing a notice of patent to the protected article. The notice requirement is designed "for the information of the public," and provides a ready means of discerning the status of the intellectual property embodied in an article of manufacture or design. The

public may rely upon the lack of notice in exploiting shapes and designs accessible to all.

Bonito Boats, 489 U.S. at 161 (citations omitted; quoting *Wine Ry. Appliance Co. v. Enterprise Ry. Equipment Co.*, 297 U.S. 387, 397, 56 S. Ct. 528, 5431, 80 L. Ed. 736 (1936)).

Copyright laws provide exclusive rights for various limited terms to authors and composers regarding the performance, display, distribution, reproduction or preparation of derivative works of the copyrighted work. Copyright law protects the expression of ideas, but not the ideas themselves, and provides that functional items such as processes, systems and methods of operation are not copyrightable. See 17 U.S.C. § 102(b). An author risks forfeiture of his copyright if he publishes his work without a proper copyright notice. See 17 U.S.C. § 405.

Trademark law is intended to prevent confusion in the minds of customers as to the source or origin of goods or services used in connection with marks. Trademark registration entails review and examination of an application for federal registration by a trademark attorney in the United States Patent and Trademark Office. During this examination, the trademark examiner reviews the application and makes determinations relating to descriptiveness and the need to establish secondary meaning.

Functionality is an aberrational doctrine that does not generally arise under trademark law, except in regard to trade dress cases where its purpose is to support the policies and preserve the relationship of patent, copyright and trademark law in the absence of a registration process. Functionality is not a part of the attorney's inquiry and is not part of the examination process on an application for federal registration. The functionality test is judicial gloss applied in trade dress litigation to coordinate and support the underlying public policies of American intellectual property law because trade dresses are not typically registered or registrable.

In *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971 (2d Cir. 1987), the Second Circuit analyzed trade dress protection in the context of federal patent policy. It concluded that extension of trade dress protection for an unlimited time to an aggregation including significant functional features is totally incompatible with American patent law. *Id.* at 977-78. In reaching that conclusion, the court extended the analysis of the Fifth Circuit decisions in *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417 (5th Cir. 1984) and *Sno-Wizard Manufacturing, Inc. v. Eisemann Products Co.*, 791 F.2d 423, 425 (5th Cir. 1986). The court in *Stormy Clime* observed that, unlike a federally registered trademark, patent and copyright, a trade dress claim undergoes no review process at all before any coordinating federal review agency, such as the United States Patent and Trademark Office.

Professor McCarthy concurs:

If there is to be legal protection for functional features, such protection can only be gained by utility patent protection limited in time, not perpetual protection under trademark law.

McCarthy, *supra*, § 7:26, at 236.

For the foregoing reasons, the Court of Appeals' *Taco Cabana* decision granting protection to combinations of functional features should not stand. This Court should make clear now, as it set forth to do in *Ives Laboratories* and *Bonito Boats*, that business competitors may copy the unpatented, functional features without fear of an infringement action. That bright line test, in contrast with the Court of Appeals' incomprehensible "arbitrary combination" of functional features formulation, will best serve the interests of free competition and preserve the balance of competing policies in United States intellectual property law.

II. THE COURT OF APPEALS' DECISION AFFORDS A GOOD OPPORTUNITY FOR THIS COURT TO PROVIDE NEEDED GUIDANCE REGARDING AN EMERGING AREA OF TRADEMARK AND UNFAIR COMPETITION LAW.

The uncertainties for business created by the Court of Appeals' decision, as discussed in the foregoing sections, are compounded by the fact that the issues presented implicate a broad range of interstate commerce. As the Court has stated:

Given the ephemeral nature of property in ideas, and the great power such property has to cause harm to the competitive policies which underlay the federal patent laws, the demarcation of broad zones of public and private right is "the type of regulation that demands a uniform national rule."

Bonito Boats, 489 U.S. at 162-63 (quoting *Ray v. Atlantic Richfield Co.*, 435 U.S. 151, 179, 98 S. Ct. 988, 100, 55 L. Ed. 2d 179 (1978)).

The uncertainty created by the Court of Appeals' ill-considered revision of the application of the functionality doctrine casts a chill over any would-be competitor impressed with an existing rival's business concept. A check with the Patent and Trademark Office cannot remove the risk of landing in Two Pesos' predicament. The need for clarity is evident. The analysis is not difficult. Only this Court can resolve the difference between the federal circuits.

In addition, this case affords an excellent opportunity to determine the issues presented. The issues are distinct and well presented. The lack of secondary meaning is not contested. The functionality of features comprising Taco Cabana's trade dress is conceded.

Finally, this case presents the Court with an opportunity to clarify questions left unanswered in its opinions in *Bonito Boats* and *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964). In both cases, the Court discussed the conflict between the federal patent scheme and state laws that encroached onto this area and, consequently, upset the delicate balances set forth in the United States' intellectual property laws:

A state law that substantially interferes with the enjoyment of an unpatented utilitarian or design conception which has been freely disclosed by its author to the public at large impermissibly contravenes the ultimate goal of public disclosure and use which is the centerpiece of federal patent policy. Moreover, through the creation of patent-like rights, the States could essentially redirect inventive efforts away from the careful criteria of patentability developed by Congress over the last 200 years.

In *Bonito Boats*, the Court noted that the "broadest reading" of the principle involved in *Sears*, logically extrapolated, "would prohibit the States from regulating the deceptive simulation of trade dress or the tortious appropriation of private information." 489 U.S. at 154. In short, all state trademark and unfair competition laws would be preempted.

However, the Court stated in *Bonito Boats* that such a reading would go too far, because the opinion in *Sears* had stated that the states "may protect businesses in the use of their trademarks, labels, or distinctive dress in the packaging of goods so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods." *Id.* (quoting *Sears*, 376 U.S. at 232). Noting that "[t]rade dress is, of course, potentially the subject matter of design patents," the Court nevertheless carved out an area where state regulation of trade dresses is appropriate:

Yet our decision in *Sears* clearly indicates that the States may place limited regulations on the circumstances in which such designs are used in order to prevent consumer confusion as to source. Thus, while *Sears* speaks in absolutist terms, its conclusion that the States may place some conditions on the use of trade dress indicates an implicit recognition that all state regulation of potentially patentable but unpatented subject matter is not *ipso facto* pre-empted by the federal patent laws.

Id.

This case presents the question unanswered in *Sears*, with the conflict being horizontal rather than vertical: Should the federal Lanham Act be allowed to expand into the areas traditionally governed by patent law so as to protect, as intellectual property, ideas not governed by any patent, and not registered under any scheme? This Court has refused to permit the states to enter this domain on the ground of federal preemption. Yet the policy behind *Sears*, which is grounded in the Constitution -- free competition and exploitation of ideas where, as here, notice is not given taking those ideas out of the public domain -- applies with equal force here. As this Court has recognized, "[I]mitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats*, 489 U.S. at 146. This case presents an ideal opportunity to clarify the law at the federal level, and to bring about the uniformity needed to deal with the "ephemeral" doctrines of United States intellectual property law.

Conclusion

For the foregoing reasons, the Court should grant the petition and review the decision of the Court of Appeals for the Fifth Circuit.

October 18, 1991

Respectfully submitted,

Kimball J. Corson
Counsel of Record

Appendix A

**TACO CABANA
INTERNATIONAL, INC.,
Plaintiff-Appellee
v.
TWO PESOS, INC.,
Defendant-Appellant.
No. 89-2203.**

United States Court of
Appeals Fifth Circuit.

June 11, 1991.

Action was brought for trade dress infringement and misappropriation of trade secrets in defendant's imitation of appearance and motif of plaintiff's Mexican restaurants. The United States District Court for the Southern District of Texas, John V. Singleton, Jr., J.,

entered judgment for plaintiff and defendant appealed. The Court of Appeals, Reavley, Circuit Judge, held that: (1) the embodiment of descriptive elements in trade dress did not disqualify it for inherent distinctiveness; (2) license of trade dress to another group of restaurants did not result in abandonment where licensor exercised adequate supervision and control over quality of licensee's goods and services; and (3) filing of architectural plans in order to obtain building permit did not eviscerate proprietary rights in trade secrets.

Affirmed.

**Synopsis, Syllabi and Key Number Classification
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The Synopsis Syllabi and Key Number Classification constitute no part of the opinion of the court.

1. Trade Regulation--332

Trade dress infringement is established by showing that: the dress qualifies for protection, which requires considering functionality, distinctiveness, and secondary meaning; and that the dress has been infringed, which requires considering the likelihood of confusion. Lanham Trade-Mark Act, § 1 et seq., as amended. 15 U.S.C.A. § 1051 et seq.

2. Trade Regulation--43

The "trade dress" of a product is essentially its total image and overall appearance. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

See publication Words and Phrases for other judicial constructions and definitions.

3. Trade Regulation--413, 461

Competitor can use elements of merchant's trade dress, but merchant can protect combination of visual elements that, taken together, may create distinctive visual impression. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

4. Trade Regulation--413

Entrant into the Mexican fast-food market could not copy competitor's distinctive combination of layout and design features. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

5. Trade Regulation--20

While functional features cannot be given trade dress protection, a particular arbitrary combination of functional features, the combination of

which is not itself functional, properly enjoys protection. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

6. Trade Regulation--20

Finding of functionality can be found if protecting trade dress threatens to eliminate substantial swath of competitive alternatives in relevant market; design should be considered de jure functional if it is the best or one of the few superior designs available. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

7. Trade Regulation--705

Instruction in action for trade dress infringement with respect to Mexican restaurants that trade dress protection is denied where the particular combination "must be used by others in order to compete" did not mislead jury or prejudice

defendant, where jury heard substantial evidence of alternative combinations that could be used to compete effectively, and record contained ample evidence that plaintiff's trade dress was, taken as a whole, nonfunctional. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

8. Trade Regulation--10

If mark or dress serves as symbol of origin it is considered distinctive and protectable, but if it is not deemed inherently or sufficiently distinctive, secondary meaning must be established. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

9. Trade Regulation--705

Instruction in action for infringement of trade dress sufficiently guided jury as to elements of inherent

distinctiveness of plaintiff's dress. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

10. Trade Regulation--25

Infringement of trade dress for Mexican restaurant by competitor warranted redress even if plaintiff's trade dress was merely suggestive and weak. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

11. Trade Regulation--10

Trade dress for Mexican restaurant did not surrender possibility of inherent distinctiveness merely by embodying certain descriptive elements. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

12. Trade Regulation--73

A "naked license" to use

the same trade dress signals involuntary abandonment and forfeits protection. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

13. Trade Regulation--73

Owner may license its trademark or trade dress and retain proprietary rights if owner maintains adequate control over quality of goods and services that licensee sells with the mark or dress. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

14. Trade Regulation--73

Cross-license by which two brothers divided Mexican restaurants, one brother retaining the original name and the other adopting a new name, and allowing the two groups to use the same trade dress, did not result in forfeiture of protection of trade dress where the licensor exercised

adequate supervision and control over licensee to ensure that quality of licensee's goods and services were not inferior to licensor's. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

15. Trade Regulation--73

Where circumstances of cross-license of trade dress for Mexican restaurants insured consistent quality, abandonment of trade dress would not be found simply for want of inspection and control formalities. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

16. Trade Regulation--345

Indicia of confusion in trade dress infringement action include type of trade dress at issue, similarity between trade dresses, similarity of products or services provided, whether

plaintiff and defendant were in market competition for same customers, whether plaintiff and defendant were likely to use same advertising media, defendant's intent in its adoption of its trade dress, and instances of actual confusion; no single factor is necessarily dispositive and proof of actual confusion is not necessary. Lanham Trade-Mark Act § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

17. Trade Regulation--413

Appropriation of trade dress of Mexican restaurants by competitor created likelihood of confusion between unrelated entities and constituted unfair competition. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

18. Torts 10(5)

T r a d e s e c r e t

misappropriation in Texas requires existence of trade secret, breach of confidential relationship or improper discovery of trade secret, use of trade secret, and damages.

19. Torts--10(5)

A "trade secret" under Texas law is any formula, pattern, device or compilation of information used in one's business, and which gives opportunity to obtain advantage over competitors who do not know or use it.

See publication Words and Phrases for other judicial constructions and definitions.

20. Torts--10(5)

Architectural plans and kitchen layout and design drawings for restaurant may be trade secrets under Texas law.

21. Torts--10(5)

Mexican restaurant's architectural plans and kitchen equipment layout and design did not lose status as trade secrets, under Texas law, by reason of disclosure of restaurant plans to contractors or by fact that competitor obtained architectural plans from municipality under the Texas Open Records Act. Vernon's Ann. Texas Civ. St. arts. 6252-17a, 6252-17a, § 3(a)(10).

22. Torts--10(5)

Fact that Mexican restaurant was required to file architectural plans to obtain building permit did not eviscerate its legitimate proprietary rights in the plans as trade secrets under Texas law. Vernon's Ann. Texas Civ. St. arts. 6252-17a, 6252-17a, § 3(a)(10).

23. Torts--27

Evidence supported

conclusion that Mexican restaurant appropriated trade secrets by using architectural plans of competitor in building its restaurants.

24. Trade Regulation--679

Recovery for infringement of trade dress may include economic benefits that normally would have been received by licensing. Lanham Trade-Mark Act §§ 35, 35(a), 43(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a), 1143(a).

25. Injunction--189

In fashioning relief against a party who has transgressed governing legal standards, court of equity is free to proscribe activities that, standing alone, would have been unassailable.

26. Trade Regulation--540

Remedy in action for

infringement of trade dress for Mexican restaurant and for appropriation of trade secrets, requiring structural changes and corrective advertising, were not improperly punitive rather than compensatory.

Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

27. Trade Regulation--679

The "headstart" theory was appropriate framework for remedy for infringement of trade dress for Mexican restaurants by competitor that preempted various markets, and entitled plaintiff to recover for deprivation of benefits that would not accrued from licensing without proof of actual confusion or quantification of damages from diverted sales. Lanham Trade-Mark Act, § 35, 35(a), 43(a), as amended, 15 U.S.C.A.

§§ 1117, 1117(a), 1143(a).

28. Trade Regulation--540

The Lanham Act endows district court with considerable discretion in fashioning appropriate remedy for infringement. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

29. Trade Regulation--683

Enhancement of damages for trade dress infringement may be based on finding of willful infringement, but cannot be punitive. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

30. Trade Regulation--683

Doubling of jury award for infringement of trade dress, upon finding that infringer's conduct was

willful and deliberate, was not abuse of discretion. Lanham Trade-Mark Act, §§ 35, 35(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a).

31. Trade Regulation--729

In reviewing award of attorney fees under the Lanham Act provision for fees in "exceptional case," court would not regiment discretion of district courts seeking equity by applying the same standard for enhancement of damages. Lanham Trade-Mark Act, § 35, as amended, 15 U.S.C.A. § 1117.

32. Trade Regulation--729

Award of attorney fees in action for infringement of trade dress for Mexican restaurants, involving brazen imitation and rapid market foreclosure, was not an abuse of discretion.

Lanham Trade-Mark Act, § 35, as amended, 15 U.S.C.A. § 1117.

33. Damages--103

Trade-secret misappropriation damages typically embrace some form of royalty.

34. Damages-137

Award of \$150,000 for misappropriation of trade secrets of Mexican restaurants, involving sales in scores of millions and impressive profits, was not unreasonable.

Appeal from the United States District Court for the Southern District of Texas.

Before REAVLEY, GARWOOD, and BARKSDALE, Circuit Judges.

REAVLEY, Circuit Judge:

Taco Cabana complained of the imitation of the appearance and motif of its Mexican restaurants by Two Pesos. Taco Cabana won a judgment for trade dress infringement under the Lanham Act and misappropriation of trade secrets under Texas law. Two Pesos appeals, claiming that Taco Cabana's trade dress is not protectable because the Mexican motif is not protectable, and that Taco Cabana surrendered any claim it had to Lanham Act protection by cross-licensing with another restaurant and retaining the same trade dress for two different restaurant names. Two Pesos also claims that it obtained the alleged trade secrets--architectural plans and kitchen equipment layout--in a lawful manner and cannot be guilty as a matter of law for trade secret misappropriation. We affirm.

BACKGROUND

Two brothers, Felix and Mike Stehling, opened the first Taco Cabana restaurant in San Antonio in September 1978, and opened five more restaurants in San Antonio by 1985. Taco Cabana describes its Mexican fast-food trade dress as:

a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.

In December 1985, Marno McDermott and Jim Blacketer opened Two Pesos in Houston. Two Pesos adopted a motif essentially consistent with the above description of Taco Cabana's trade dress,¹ and expanded rapidly in Houston and other markets in and out of Texas,² but did not enter San Antonio. In 1987, Taco Cabana sued Two Pesos for trade dress infringement under section 43(a) of the Lanham Act and for theft of trade secrets under Texas common law.

Six days before filing suit against Two Pesos, the Stehling brothers entered into a series of agreements dividing the Taco Cabana restaurants between themselves and going their separate ways. Felix Stehling retained the "Taco Cabana" name, and Michael Stehling adopted the name "TaCasita." The agreements allowed the two groups to

use the same trade dress, though one provision required "reasonable efforts to modify their trade dress for their respective future restaurants sufficiently to distinguish the restaurants of each Group from the restaurants of the other Group in the public's mind." The Stehlings have not altered their respective trade dresses. After filing suit, Taco Cabana expanded into several cities, including Houston and Dallas where Two Pesos was already doing business.

The jury found that:
(1) Taco Cabana has a

trade dress; (2) Taco Cabana's dress, taken as a whole, is non-functional; (3) the dress is inherently distinctive; (4) the dress has not acquired secondary meaning in the Texas market; (5) customers might likely associate or confuse a Taco Cabana restaurant with a Two Pesos restaurant; (6) Taco Cabana exercises adequate supervision and control over TaCasita to ensure that the quality of TaCasita's goods and services are not inferior to Taco Cabana's; and (7) Taco Cabana was damaged by the trade dress

1. Phil Romano, a restaurateur since 1965 who developed the successful Fuddruckers chain, testified that Taco Cabana and Two Pesos are "shaped the same. They look the same. When you're inside they feel the same. They have the same product."

2. Between December 1985 and August 1988, Two Pesos opened 29 restaurants.

infringement. The jury awarded \$306,000 for lost profits, \$628,300 for lost income, and \$0 for loss of good will. The district court doubled the damages for trade dress infringement (bringing the total to \$1,868,600), awarded attorneys fees of \$937,550, and ordered Two Pesos to make several changes in its restaurant design.

Taco Cabana also claimed misappropriation of the following trade secrets: (1) certain architectural drawings; (2) its kitchen equipment layout and design; and (3) its kitchen and restaurant operating procedures. The jury found that Two Pesos misappropriated the architectural drawings and the kitchen equipment layout and design, but not the operating procedures. The jury awarded \$150,000 for the misappropriation. The district court entered judgment on the jury's

verdict, and denied Two Pesos' motions for judgment n.o.v. and for a new trial. Two Pesos appeals.

DISCUSSION

I. Trade Dress Infringement

[1, 2] Trade dress infringement is established by showing that: (1) the dress qualifies for protection, which requires considering functionality, distinctiveness, and secondary meaning; and (2) that the dress has been infringed, which requires considering the likelihood of confusion. *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 425 (5th Cir. 1984).

A. The Threshold "Concept" Dispute.

The district court instructed the jury that:

"trade dress" is the total image of the business.

Taco Cabana's trade dress may include the shape and general appearance of the exterior of the restaurant, the identifying sign, the interior kitchen floor plan, the decor, the menu, the equipment used to serve food, the servers' uniform and other features reflecting the total image of the restaurant.

See Blue Bell Bio-Medical v. Cin-Bad, Inc., 864 F.2d 1253, 1256 (5th Cir. 1989) ("The 'trade dress' of a product is essentially its total image and overall appearance.").

Two Pesos argues that protectable trade dress is much narrower than "total image." The combined effect, Two Pesos argues, of Taco Cabana's consistent reference to "concept" and the district court's "total image" instruction was to mislead the jury into believing that Taco Cabana had a right to preclude competitors from using a Mexican theme for a Mexican restaurant.³ Taco Cabana cannot preclude Two Pesos or anyone from entering the upscale Mexican fast-food market. But the jury was not misled into protecting such an abstract level of Taco Cabana's trade dress.

3. *See Prufrock Ltd., Inc. v. Lasater*, 781 F.2d 129, 132 (8th Cir. 1986) ("[T]he district court committed error by including Prufrock's core concept in its definition of Prufrock's trade dress. Prufrock simply cannot preclude [defendant] from entering the 'down home country cooking' restaurant business.").

[3.4] A competitor can use elements of Taco Cabana's trade dress,⁴ but Taco Cabana "can protect a combination of visual elements 'that, taken together, . . . may create a distinctive visual impression.'" *Fuddruckers, Inc. v. Doc's B.R. Others,*

Inc., 826 F.2d 837, 842-43 (9th Cir. 1987), *quoting Falcon Rice Mill v. Community Rice Mill*, 725 F.2d 336, 346 (5th Cir. 1984). Two Pesos may enter the upscale Mexican fast-food market, but it may not copy Taco Cabana's distinctive combination of layout and

4. See *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 703 (5th Cir. Unit A 1981) (protecting "combination of particular hues of [plaintiff's] colors, arranged in certain geometric designs, presented in conjunction with a particular style of printing . . . would leave innumerable other combinations of the same colors . . ."), *cert. denied* 457 U.S. 1126, 102 S.Ct. 2947, 73 L.Ed.2d 1342 (1982); *cf. No Nonsense Fashions, Inc. v. Consolidated Foods Corp.*, 226 U.S.P.Q. 502 (T.T.A.B. 1985) ("Sheer Elegance" for pantyhose is a suggestive mark, and registration will not prevent competitors from descriptive use of "sheer," "elegant," or "elegance"). *But see AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1537 (11th Cir. 1986) (noting exception to general rule of totality when third party use of one or more elements of plaintiff's trade dress is so extensive and so similar to plaintiff's that it impairs ability of consumers to identify source), *cert. denied*, 481 U.S. 1041, 107 S.Ct. 1983, 95 L.Ed.2d 822 (1987).

design features.⁵ Two Pesos' imitation reflects not merely components of Taco Cabana's trade dress, but its distinctive integration of components. The instructions properly cautioned the jury not to focus on isolated components in determining the protectability of Taco Cabana's trade dress, but rather to consider the overall combination of elements.

B. The Elements of Protectability.

5. Two Pesos' own Franchise Agreement assumes the protectability of essentially that which it here asserts cannot be protected. That agreement defines trade dress as follows:

Franchisor employs certain distinctive and identifying restaurant layout and design features, including distinctive building design, decor, accessories and fixtures and other identifying trade dress in the interior and exterior of its Restaurants, which features . . . are collectively referred to as "Trade Dress."

1. *Functionality*

The portions of the trial court's instructions disputed by Two Pesos appear in bold type:

The law allows the copying of functional features in the public interest of enhancing competition. . . .

Even if the trade dress is made up of individual elements, **some of which serve a functional purpose**, the trade dress

may be protectable so long as the combination of these individual elements which define Taco Cabana's trade dress taken is arbitrary. On the other hand, if you find that Taco Cabana's trade dress taken as a whole **must be used by others in order to compete** in the Mexican fast-food restaurant business, then you should find that Plaintiff's trade dress is functional and not protectable.

[T]he inquiry into whether Taco Cabana's trade dress is functional or nonfunctional **should not be addressed to whether individual elements fall within the definition, but whether the whole collection of elements taken together are functional or nonfunctional.**

[5] Two Pesos' argument reduces to a fallacious syllogism: (1) Taco Cabana's trade dress

includes functional elements; (2) functional elements do not enjoy protection; (3) therefore Taco Cabana's trade dress does not enjoy protection. Two Pesos correctly emphasizes that functional features cannot be protected, *Sno-Wizard Mfg., Inc. v. Eisemann Products Co.*, 791 F.2d 423, 425 n. 2 (5th Cir. 1986), but a particular arbitrary combination of functional features, the combination of which is not itself functional, properly enjoys protection. See *Sicilia*, 732 F.2d at 425 (design may be distinctive and identifying even though also related to performing a function); *Chemlawn Services Corp. v. GNC Pumps, Inc.*, 690 F.Supp. 1560, 1571 (S.D.Tex. 1988) (exterior configuration of functional parts arbitrarily selected; not necessary to copy configuration of each part to effectuate functions). Taco Cabana does not seek protection for individual

elements, but for a particular combination of elements which constitute trade dress as a whole. See *Sicilia*, 732 F.2d at 429.

With the doctrine of functionality, the law secures for the marketplace a latitude of competitive alternatives. See *Freddie Fuddruckers, Inc. v. Ridge-line, Inc.*, 589 F.Supp. 72, 77 (N.D. Tex. 1984) (policy predicate for functionality doctrine is public interest in enhancing competition), *aff'd without op.*, 783 F.2d 1062 (5th Cir. 1986); *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 977-78 (2d Cir. 1987) (functionality test critical to avoid upsetting patent law by indefinitely extending trade dress protection to an aggregation of elements that would otherwise enrich the public domain after expiration of

design patent). "The need to avoid monopolization of a design lessens, however, in the area of distinctive trade dress. The wide range of available packaging and design options allows a producer to appropriate a distinctive identity without unduly hindering his competitors' ability to compete." *Sicilia*, 732 F.2d at 426 n. 7. Taco Cabana's particular integration of elements leaves a multitude of alternatives to the upscale Mexican fast-food industry that would not prove confusingly similar to Taco Cabana's trade dress.

[6, 7] Though the district court may have overstated the law to instruct the jury that protection is denied where the particular combination "must be used by others in order to

compete,"⁶ under this record the instruction did not mislead the jury or prejudice Two Pesos. See *Smith v. Borg-Warner Corp.*, 626 F.2d 384, 387 (5th Cir. 1980) ("tolerably accurate, albeit incomplete, statement of law" did not constitute reversible error where instruction, "viewed in its worst light, merely gave plaintiff an instruction on an issue for which there was no evidence"). The jury heard substantial evidence of alternative combinations that could be used to compete effectively, and the

6. It should suffice for a finding of functionality if protecting the trade dress threatens to eliminate a substantial swath of competitive alternatives in the relevant market. "A design would be considered de jure functional if it is 'the best or one of a few superior designs available.'" *Sicilia*, 732 F.2d at 427 (emphasis added), quoting *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1341 (C.C.P.A. 1982).

record contains ample evidence that Taco Cabana's trade dress is, taken as a whole, nonfunctional.

2. *Inherent Distinctiveness & Secondary Meaning.*

[8] "If a mark or dress serves as a symbol of origin it is considered distinctive and protectable. Unless a mark or dress is deemed 'inherently' or 'sufficiently' distinctive, however, secondary meaning must be established."

Sno-Wizard, 791 F.2d at 425 n. 2.7 Arguing that simply "distinctive" trade dress is not enough, Two Pesos cites error in the district court's failure to address the quality of *inherence*. We find no reversible error.

[9, 10] The district court instructed the jury as follows:

Distinctiveness is a term used to indicate that a trade dress serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco

Cabana's trade dress distinguishes its products and services from those of other restaurants and is not descriptive and not functional, then you should find that Taco Cabana's trade dress is inherently distinctive.

While the district court might have achieved greater semantic clarity by separately addressing distinctiveness an *inherent* distinctiveness, the instruction as a whole properly guided the jury as to the elements of inherent

7. Two Pesos' argument--that the jury finding of inherent distinctiveness contradicts its finding of no secondary meaning in the Texas market--ignores the law in this circuit. While the necessarily imperfect (and often prohibitively difficult) methods for assessing secondary meaning address the empirical question of current consumer association, the legal recognition of an inherently distinctive trademark or trade dress acknowledges the owner's legitimate proprietary interest in its unique and valuable informational device, regardless of whether substantial consumer association yet bestows the additional empirical protection of secondary meaning.

distinctiveness. A distinctive trade dress that is neither descriptive nor functional is *ipso facto* inherently distinctive.⁸

[11] Two Pesos argues that Taco Cabana's trade dress embodies descriptive

elements, which should disqualify the dress for inherent distinctiveness. "A *descriptive* term 'identifies a characteristic or quality of an article or service' ... such as its color, odor, function, dimensions, or ingredients."

8. As no one contends that Taco Cabana's trade dress is generic, the jury finding that the trade dress is not merely descriptive means that the dress is arbitrary, fanciful, or suggestive. We need not determine which of these three categories properly characterizes the trade dress, because all three entitle Taco Cabana to protection without proof of secondary meaning. A *weak* suggestive trade dress might narrow the *scope* of protection to competitors in the same product line, *see P.F. Cosmetique, S.A. v. Minnetonka Inc.*, 605 F.Supp. 662, 668-69 (S.D.N.Y. 1985) (suggestive packaging, coupled with wide use of elements, is "weak mark," and thus protected against infringement only by competing products), but Taco Cabana and Two Pesos directly compete in the Mexican restaurant market, and Two Pesos' trade dress infringement therefore warrants redress even if Taco Cabana's trade dress is merely suggestive and weak. *See Sun Banks of Fla. v. Sun Fed. Sav. & Loan Ass'n*, 651 F.2d 311, 315 (5th Cir. 1981) ("Although less distinctive than a fictitious, arbitrary or fanciful mark and therefore a comparatively weak mark, a suggestive mark will be protected without proof of secondary meanings.").

Zatarains Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786, 790 (5th Cir. 1983) (finding "Fish-Fri" descriptive and not protectable), quoting *Vision Center v. Opticks, Inc.*, 596 F.2d 111, 115 (5th Cir. 1979), *cert. denied*, 444 U.S. 1016, 100 S. Ct. 668, 62 L.Ed.2d 646 (1980).

Taco Cabana's trade dress does not surrender the possibility of inherent distinctiveness merely by embodying certain descriptive elements. As with Two Pesos' flawed syllogism on functional elements, the existence of descriptive elements does not eliminate the possibility of inherent distinctiveness in the trade dress as a whole. "The whole, in trademark law, is often greater than the sum of its parts." *Association of Co-operative Members, Inc. v. Farmland Indus., Inc.*, 684 F.2d 1134, 1140 (5th Cir. 1982), *cert. denied*, 460 U.S. 1038, 103 S.Ct. 1428, 75

L.Ed.2d 788 (1983); *see also* 1 J. McCarthy, TRADEMARKS AND UNFAIR COMPETITION § 11:10 at 457 (2d ed. 1984) ("combination of two or more admittedly descriptive elements as a composite mark may result in a composite which is non-descriptive"; and quoting *Farmland Industries, supra*). Again, competitors may use individual elements in Taco Cabana's trade dress, but the law protects the distinctive totality. The jury visited both Taco Cabana and Two Pesos, and heard ample evidence of the distinctiveness of Taco Cabana's total trade dress, including the impressions of individuals responsible for the ultimate look of Two Pesos, who were sufficiently impressed with the distinctiveness of Taco Cabana's trade dress to replicate it. Given its rather brazen appropriation of Taco Cabana's distinctive combination, Two Pesos

cannot escape accountability for unfair competition simply by pointing to particular elements it might have fairly employed for its own trade dress.

C. The Legal Effect of the Cross-License.

[12] Prior to this litigation, this Stehling brothers divided the Taco Cabana restaurants. Felix Stehling retained the name "Taco Cabana," and Michael Stehling adopted the name "TaCasita." The agreement allowed the two groups to use the same trade dress, which Two Pesos calls a "naked license." But Two Pesos faces a stringent standard because finding a "naked license" signals involuntary trademark abandonment and forfeits protection. See *American Foods, Inc. v. Golden Flake, Inc.*, 312 F.2d 619, 624-25 (5th Cir. 1963). While this cross-license arrangement is not governed closely by any

precedent, we find no basis for an involuntary abandonment.

[13, 14] An owner may license its trademark or trade dress and retain proprietary rights if the owner maintains adequate control over the quality of goods and services that the licensee sells with the mark or dress. See *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 387 (5th Cir. 1977) (quality-control rationale is that public has right to expect consistent quality of goods or services associated with trademark or trade dress). Two Pesos argues that the cross-license creates two separate sources of good will and thus cannot indicate a single origin. This argument ignores the emergence of the "quality theory," which broadens the older source theory "to include not only manufacturing source but also the source of the standards of

quality of goods bearing the mark" or dress. 1 J. McCarthy, *supra*, § 3:4 at 112. So long as customers entering a Taco Cabana or a TaCasita can expect a consistent level of quality, the trade dress retains its "utility as an informational device." *Kentucky Fried*, 549 F.2d at 387.

While the parties dispute the actual level of quality control, the jury's finding--that Taco Cabana exercises adequate supervision and control over TaCasita to ensure that the quality of TaCasita's goods and services are not inferior to Taco Cabana's --enjoys adequate record support. We also reject Two Pesos' argument that the district court erred in refusing to instruct the jury that TaCasita must also exercise quality control over Taco Cabana. Ignoring the record evidence of at least some bilateral quality monitoring, the law requires

consistent quality, not equivalent policing. The jury found the requisite quality consistency; we need not demand rigorous bilateral regulation.

[15] The purpose of the quality-control requirement is to prevent the public deception that would ensue from variant quality standards under the same mark or dress. Where the particular circumstances of the licensing arrangement persuade us that the public will not be deceived, we need not elevate form over substance and require the same policing rigor appropriate to more formal licensing and franchising transactions. Where the license parties have engaged in a close working relationship, and may justifiably rely on each parties' intimacy with standards and procedures to ensure consistent quality, and no actual decline in quality standards is demonstrated,

we would depart from the purpose of the law to find an abandonment simply for want of all the inspection and control formalities. See *Embedded Moments, Inc. v. International Silver Co.*, 648 F.Supp. 187, 194 (E.D.N.Y. 1986) (license agreement without explicit provision for supervisory control and absence of actual inspection nevertheless no basis for abandonment where prior working relationship established basis for reliance on licensee's integrity and history of manufacture was "trouble-free").

The history of the Stehling brothers' relationship warrants this relaxation of formalities. Prior to the licensing agreement at issue, the Stehling brothers operated Taco Cabana together for approximately eight years. Taco Cabana and TaCasita do not use significantly different

procedures or products, and the brothers may be expected to draw on their mutual experience to maintain the requisite quality consistency. They cannot protect their trade dress if they operate their separate restaurants in ignorance of each other's operations, but they need not maintain the careful policing appropriate to more formal license arrangements. Two Pesos adduces no evidence to indicate any decline in the level of quality at Taco Cabana or TaCasita, and we find nothing in the record to substantiate Two Pesos' claim that the licensing arrangement diminishes any proprietary rights in the trade dress.

D. Likelihood of Confusion.

[16] The district court properly instructed the jury on the likelihood of

confusion,⁹ the jury found for Taco Cabana on this issue, and we find no reversible error.

Ignoring the indicia of confusion that yield unfavorable answers, Two Pesos expends considerable energy assaulting the Gelb Survey offered by Taco Cabana. That survey asked customers: (1) if they had ever been to a TaCasita or Taco Cabana or Two Pesos restaurant; (2) if yes, which ones; (3) "Do you think that any of these stores are

owned or operated by the same company?" and (4) if so, "Why do you say that?" Questions 3 and 4 simply and objectively address the issue in this litigation. Subject to cross-examination and the other tools of the adversarial system, the jury could properly consider Mr. Gelb's conclusion that a substantial population of those who patronize quick-service Mexican restaurants, particularly those who have patronized Taco Cabana (where the survey was conducted), are likely to

9. The indicia of confusion in the Fifth Circuit, as the district court correctly instructed, include: (a) the type of trade dress at issue; (b) the similarity between the trade dresses; (c) the similarity of products or services provided; (d) whether the plaintiff and defendant were in market competition for the same customers; (e) whether the plaintiff and defendant were likely to use the same advertising media; (f) defendant's intent in its adoption of its restaurant trade dress; and (g) instances of actual confusion. *Roto-Rooter Corp. v. O'Neal*, 513 F.2d 44, 45 (5th Cir. 1975). No single factor is necessarily dispositive. *Falcon Rice*, 725 F.2d at 345 n. 9. Proof of actual confusion is not necessary. *Roto-Rooter*, 513 F.2d at 45-46.

believe that Taco Cabana and Two Pesos are owned or operated by the same company.

The Peterson survey offered by the Two Pesos is less helpful. That survey asked all respondents why they patronize Two Pesos. The survey then asked half of the respondents, "have you ever gone to another restaurant by mistake when you intended to go to a Two Pesos restaurant?" The other half were asked, "have you ever gone to a Two

Pesos restaurant by mistake when you intended to go to another restaurant?" Predictably, a statistically insignificant number of people confessed to what would appear to be a rather silly mistake.¹⁰ The issue is not whether consumers can read signs and menus that identify different restaurants, but whether consumers assume some affiliation between Taco Cabana and Two Pesos.

Surveys present evidence of actual confusion,

10. Seeking thoroughness, the surveyors called twelve of the individuals who did so confess to find out more about the nature of their "mistake." Peterson testified during direct examination that the specific responses demonstrated even less likelihood of confusion between Two Pesos and Taco Cabana, because, for example, one person said he had taken a wrong turn, drove into the wrong parking lot, and ended up at Two Pesos "by mistake." Thus even the few so-called mistakes, in Peterson's gloss, turned out to have nothing to do with trade dress. Such responses, far from demonstrating anything relevant about trade dress confusion, instead suggest that people did not understand what the question meant by "mistake."

which does not exhaust the confusion indicia. The other indicia considerably strengthen the basis for the jury finding: the similarity of the trade dress; the coincidence of products, markets, and advertising media; and Two Pesos' intent in adopting its trade dress.¹¹ For self-evident reasons, Two Pesos discusses none of these factors with the vigor of its survey arguments.

Finally, Two Pesos again attacks the cross-license arrangement, arguing

essentially that Two Pesos is not accountable for confusion in a market already subject to the confusion perpetuated by Taco Cabana and TaCasita. But a consumer who assumes some affiliation between Taco Cabana and TaCasita assumes correctly and therefore suffers no "confusion."¹² An equivalent assumption about Two Pesos, however, is incorrect, and properly indicative of the market confusion for which the Lanham Act provides redress.

11. See *Sno-Wizard*, 791 F.2d at 428 (intent alone may be enough to support finding of likelihood of confusion).

12. Two Pesos promotes the applicability of *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686, 705-06 (2d Cir. 1970) (plaintiff and defendant could not jointly or concurrently use Zeiss trademark because both companies directly competitive, sold same products, used same or very similar marks, marketed in many of the same areas and in the same manner, and there was actual confusion), *cert. denied*, 403 U.S. 905, 91 S.Ct. 2205, 29 L.Ed.2d 680 (1971). But in *Carl Zeiss*, the

[17] We therefore affirm the trial court's judgment that Two Pesos' appropriation of Taco Cabana's protectable trade dress creates a likelihood of confusion between unrelated entities, and thereby constitutes unfair competition.

II. Trade Secret Misappropriation

The jury found that Taco Cabana's architectural plans and kitchen equipment layout and design--but not its kitchen and restaurant operating procedures--constitute trade secrets, and that Two Pesos misappropriated these secrets. The jury awarded \$150,000 for the misappropriation.

plaintiff asserted *exclusive* rights to a trademark. There was no consideration of an amicable licensing arrangement. We would confront the persuasive force of this precedent if, for example, Taco Cabana or TaCasita petitioned the court to resolve a claim of exclusive right to the trade dress.

[18, 19] A trade secret misappropriation in Texas requires: (a) the existence of a trade secret; (b) a breach of a confidential relationship or improper discovery of the trade secret; (c) use of the trade secret; and (d) damages. *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 896 (5th Cir.), *cert. denied*, 454 U.S. 829, 102 S.Ct. 123, 70 L.Ed.2d 105 (1981). A trade secret is any formula, pattern, device or compilation of information used in one's business, and which gives an opportunity to obtain an advantage over competitors who do not know or use it. *Hyde Corp. v. Huffines*, 158 Tex. 566, 586, 314 S.W.2d 763, 776 (adopting RESTATEMENT OF TORTS § 757 (1939)), *cert.*

denied, 358 U.S. 898, 79 S.Ct. 223, 3 L.Ed.2d 148 (1958).

[20] Architectural plans and kitchen layout and design drawings may be trade secrets.¹³ See e.g. *American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W.2d 274, 278 (Tex. App.--Houston [1st Dist.] 1988, no writ) (blueprints, drawings, and customer lists constitute trade secrets); *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 901-02 (Tex. Civ. App.--Houston [1st Dist.] 1978, writ *ref'd n.r.e.*) (drawings of assembly-line layout and design entitled to trade secret protection); *Ecolaire Inc. v. Crissman*, 542 F.Supp. 196, 206 (E.D. Pa. 1982) (drawings, blueprints, and lists constitute trade

secrets because such information could be obtained, through other than improper means, only with difficulty and delay).

[21] The issue thus becomes whether sufficient and continuous secrecy attached to these particular plans and drawings to preserve their status as trade secrets.

The owner of the secret must do something to protect himself. He will lose his secret by its disclosure unless it is done in some manner by which he creates a duty and places it on the other party not to further disclose or use it in violation of that duty.

¹³ Two Pesos denies the confidential status of the architectural plans and kitchen design, but significantly defines licensed "confidential information" in its own franchise agreement to include "drawings, materials, equipment, specifications, techniques" and so forth.

Furr's Inc. v. United Specialty Advertising Co., 385 S.W.2d 456, 459 (Tex. Civ. App.--El Paso 1964, writ ref'd n.r.e.), cert. denied, 382 U.S. 824, 86 S.Ct. 59, 15 L.Ed.2d 71 (1965); see also *Carson Products Co. v. Califano*, 594 F.2d 453, 461 (5th Cir. 1979) (however strong other indicia of trade secret status may be, subject matter must be secret, such that acquiring information would be difficult except by improper means).

The jury concluded that Two Pesos had misappropriated Taco Cabana's trade secrets, and we must review that conclusion constrained by our generous deference to jury findings. Under a less deferential standard of review, our decision might differ, but considering the evidence "in the light and with all reasonable inferences most favorable" to Taco Cabana, we cannot say that "the facts and inferences

point so strongly and overwhelmingly in favor of [Two Pesos] that the Court believes that reasonable [persons] could not arrive at a contrary verdict." *Boeing Co. v. Shipman*, 411 F.2d 365, 374 (5th Cir. 1969) (en banc), cited in *Molex Inc. v. Nolen*, 759 F.2d 474, 478-79 (5th Cir. 1985) (trade-secret jury trial).

The jury could reasonably view the disclosures adduced by Two Pesos as limited and therefore insufficient to extinguish the secrecy of the materials. If a voluntary disclosure occurs in a context that would not ordinarily occasion public exposure, and in a manner that does not carelessly exceed the imperatives of a beneficial transaction, then the disclosure is properly limited and the requisite secrecy retained. *Metallurgical Industries Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1200 (5th Cir. 1986) (finding no surrender of

secrecy where disclosures were not public announcements and secrets divulged only to businesses with whom plaintiff dealt with expectation of profit). Thus the disclosure of Taco Cabana plans to contractors did not extinguish their secrecy.¹⁴

[22] Similarly, only a

limited disclosure was shown by the fact that a paralegal for Two Pesos' trial counsel obtained the architectural plans from a municipality under the Texas Open Records Act. TEX. REV. CIV. STAT. ANN. art. 6252-17a (Vernon Supp. 1991).¹⁵ The fact that Taco Cabana was required to file the plans

14. See also *International Election Systems Corp. v. Shoup*, 452 F.Supp. 684, 707-08 (E.D. Pa. 1978) (technical drawings and blueprints qualified as trade secrets despite their unrestricted transfer to certain companies and employees' free access to such records), *aff'd without op.*, 595 F.2d 1212 (3d Cir. 1979); cf. *Nucor Corp. v. Tennessee Forging Steel Service, Inc.*, 476 F.2d 386, 390 (8th Cir. 1973) (distribution of plans to potential contractors and subcontractors, even though not marked confidential and not required to be returned, does not constitute general publication for purposes of common law copyright).

15 Section 3(a)(10) creates an exception to disclosure for "trade secrets and commercial or financial information obtained from a person and privileged or confidential by statute or judicial decision." See, e.g., Tex. Att'y Gen. ORD-554 (1990) (semiconductor manufacturer with verified interest in secrecy stated valid trade secret exemption for plan design and layout).

and to obtain a building permit does not eviscerate its legitimate proprietary rights.¹⁶ Cf.

Ashworth v. Glover, 20 Utah 2d 85, 89-90, 433 P.2d 315, 319 (1967) (architect suing for conversion of restaurant construction plans did not sur-render common law proprietary rights in plans by distributing copies to contractors or by filing copy with city). The district court correctly instructed the jury that "[f]iling of architectural plans with a city does not make them public

information within the context of secrecy that relates to the law of trade secrets.¹⁷

Joseph Friesenhahn, Felix Stehling's former partner, was a prospective associate in the Two Pesos venture until McDermott and Blacketer decided to go forward without his services. Friesenhahn testified in his deposition that McDermott (one of Two Pesos' founders) offered him \$25,000 for a set of the plans. McDermott fervently denied making this offer,

and Friesenhahn's deposition testimony did flip-flop on this issue because of a peculiar memory lapse in the first deposition. But it is the jury's province to determine weight and credibility. "Secrecy is a relative term. The information may be known to several persons and yet still be secret if third parties would be willing to pay for a breach of trust in order to ascertain it." *A.H. Emery Co. v. Marcan Products Corp.*, 268 F.Supp. 289, 299 (S.D.N.Y.

1967) (holding that drawings and blueprints of a machine are trade secrets), *aff'd*, 389 F.2d 11 (2d Cir.), *cert. denied*, 393 U.S. 835, 89 S.Ct. 109, 21 L.Ed.2d 106 (1968).

The jury heard further that upon failing the Friesenhahn ploy, McDermott and Blacketer obtained a set of the plans from Joe Kaplan, a lighting designer. Kaplan testified in his deposition that he had borrowed a set of plans from Rene DeBacker, an

¹⁶ The paralegal obtained the plans in August of 1987 by telling the city clerk of Leon Valley that she needed copies for a lawsuit. Blacketer testified that he obtained a set of Taco Cabana architectural drawings from Kaplan over two years earlier in April of 1985. Thus the acquisition from Leon Valley, even if lawful, does not bear on the outcome of this case. "The fact that a trade secret is of such a nature that it can be discovered by experimentation or other fair and lawful means does not deprive its owner of the right to protection from those who would secure possession of it by unfair means." *Weed Eater*, 562 S.W.2d at 901.

¹⁷ Given the inevitable conflict between public and private information under laws that vigorously and necessarily champion

both, we do not intend herein to signal a significant shift in either direction. The delicate balance remains undisturbed. But if the wide public dissemination we prize disgorges properly confidential information, we need not thereafter baptize its unfair exploitation. We neither alter nor add to either body of law to recognize that bare availability of information does not end the fact-sensitive inquiry into whether it was nevertheless misappropriated. Cf. *Edgar H. Wood Associates, Inc. v. Skene*, 347 Mass. 351, 363, 197 N.E.2d 886, 894 (1964) ("It is not the purpose of the filing requirement to facilitate and permit architectural plagiarism, or enable one to obtain free of charge the benefit of another's work and thus to reap where it has not sown.")

electrical estimator for Vollmer Electrical Company. Kaplan said he wanted to study the plans and recommend better lighting arrangements, though he later admitted that he never looked at the plans. He copied the plans without telling anyone, and the next day "brought the [original] plans back and put them back on the table where [he] found them."

DeBacker testified that he considers such plans confidential, that he would always consult Vollmer before considering a request for copies of plans, and that neither Kaplan nor anyone else ever asked him for a set of the plans. Ferdinand Vollmer likewise testified that his company treats all architectural plans as proprietary and confidential, that Kaplan never asked him for a set of Taco Cabana plans, that he would not have given him a set even had Kaplan asked, and

that he thinks Kaplan stole the plans.

We need not detail the various reasonable inferences--some subtle and some unsavory--to acknowledge that one view of the evidence would not inculcate Two Pesos; another view would. The jury properly assumed its function of assigning weight and credibility to the various accusations and denials, of which the foregoing is a representative glimpse. The jury's conclusion rests on adequate evidence, and we decline to disturb the verdict.

[23] Finally, Two Pesos does not seriously dispute that it used the plans, and ample evidence supports this conclusion.

III. Remedies

The jury awarded \$306,000 for lost profits, \$628,300 for lost income,

and nothing for loss of good will. For the trade secret misappropriation, the jury awarded \$15,000.¹⁸

Finding intentional and deliberate infringement, the district court doubled the damages to \$1,868,600 for the trade dress infringement, and awarded attorneys' fees of \$937,550. The court further ordered Two Pesos to make several changes in the design of its Texas restaurants, and to dispel customer confusion by displaying a prominent sign for a year acknowledging that Two Pesos had unfairly copied Taco Cabana's restaurant concept.

Taco Cabana claims injury, under the so-called "headstart" theory, from Two Pesos' preemption of the Houston market and other areas. According to Two Pesos, the jury based damages on an initial franchise fee of \$10,000 per store and continuing royalty of 1% (which is substantially below what Taco Cabana or Two Pesos requires of actual franchisees). The lost profits calculation apparently assumes a foreclosure a five restaurants in the Houston area at a 6% profits margin on sales of \$1.7 million per store with an incremental fixed overhead of \$204,000. The jury heard abundant

18. In its jury instructions on damages, the district court carefully addressed the separate elements of damages--the value of the trade secret, and the loss of profits, income and good will from the trade dress infringement--but without indicating that these categories could overlap. Two Pesos thoroughly briefed the issue of damages, but raised no point of error as to possible duplication in the award, and we do not address it.

evidence on the foregoing remedies, including detailed damage models yielding totals substantially exceeding the jury's award.

A. Trade - Dress Infringement Remedies.

[24] Circuits that have addressed the issue uniformly apply the Lanham Act remedies of section 35 to violations of section 43(a). See *NuPulse, Inc. v. Schlueter Co.*, 853 F.2d 545, 548, 550 (7th Cir. 1988) (citing cases).¹⁹

Section 35 provides that a prevailing plaintiff may,

subject to the principles of equity . . . recover (1) defendant's profits, (2) any damages sustained by the plaintiff,

and (3) the costs of the action. . . . In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. Such sum . . . shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

15 U.S.C.A. § 1117(a) (West Supp. 1991). *Taco Cabana's* recovery may include "the economic benefits they normally would have received by licensing." *Boston Professional Hockey Ass'n v. Dallas Cap &*

Emblem Mfg., Inc., 597 F.2d 71, 75 (5th Cir. 1979).

B. Injunctive Relief.

[25, 26] Two Pesos weakly contests the requirements of structural changes and corrective and advertising, calling them punitive instead of compensary. "In fashioning relief against a party who had transgressed the governing legal standards, a court of equity is free to proscribe activities that, standing alone, would have been unassailable."

Kentucky Fried, 549 F.2d at 390; see also *Chevron*, 659 F.2d at 705 (defendant required to distance itself from plaintiff's trade dress, even if requirement involves a competitive handicap not suffered by others); *Frisch's Restaurants, Inc. v. Elby's Big Boy, Inc.*, 670 F.2d 642, 650-51 (6th Cir.) (affirming district court's requirements of corrective advertising), *cert. denied*, 459 U.S. 916,

103 S. Ct. 231, 74 L.Ed.2d 182 (1982).

C. Profits and Damages.

[27] Two Pesos argues that a monetary award requires evidence of actual confusion, and that only diverted sales provide a proper measure of damages. We disagree, as we did in *Boston Professional Hockey*, 597 F.2d at 75-76 (plaintiff's failure to quantify any damages from diverted sales did not preclude recovery for deprivation of economic benefits that would have accrued from licensing); see also *Shen Mfg. Co. v. Suncrest Mills, Inc.*, 673 F.Supp. 1199, 1206 (S.D.N.Y. 1987) (defendant's intentional copying entitles plaintiff to profits based on unjust enrichment theory despite failure to prove any instance of actual confusion). Because we embrace the "headstart" theory as the apt framework for monetary

19. Congress codified this resounding support for consistent remedies by enacting the Trademark Law Revision Act on November 16, 1988 which, inter alia, amended section 35 to include section 43(a) violations. 15 U.S.C.A. § 1117(a) (West Supp. 1991).

recovery, we need not pursue the issue of actual diverted sales.

Especially given the volatility of the restaurant industry, and the significant value of securing the image of "market leader," we believe the "headstart" theory provides an apt framework for Taco Cabana's monetary recovery. Two Pesos' infringement foreclosed the Houston market, which Gabriel Gelb characterized as "one of the most affluent Mexican food markets in the country." Based on the Houston market alone, Gelb estimated lost profits of \$4.4 million. Other damage models produced even higher figures. The jury awarded easily qualifies as reasonable compensation to Taco Cabana.

D. Enhanced Damages.

Finding that Two Pesos' conduct was willful and

deliberate, the district court doubled the jury award for infringement. Judge Singleton asserted that "[u]nder the facts of this case and listening to the witnesses and judging the credibility myself, I can come to no other conclusion than to find that Two Pesos actions were willful in the sense that it was deliberate. . . . The evidence was overwhelming." Intentional imitation alone --as opposed to intentional infringement-- would not suffice for the requisite bad faith, but as his Order recites, Judge Singleton found "that Two Pesos intentionally and deliberately infringed Taco Cabana's trade dress."

[28, 29] We must respect the fact that section 35 endows the district court with considerable discretion in fashioning an appropriate remedy for infringement. An enhancement of damages may be based on a finding of willful infringement,

but cannot be punitive. *Playboy Enterprises, Inc. v. P.K. Sorren Export Co.*, 546 F.Supp. 987, 998 (S.D. Fla. 1982); see 15 U.S.C.A. § 1117(a) (West Supp. 1991) (any sum in excess of actual damages must "constitute compensation and not a penalty").

[30] It is anomalous to say that an enhancement of damages, which implies an award exceeding the amount found "compensatory," must be "compensatory" and not "punitive." Responding to that anomaly, we have suggested that enhancement could, consistent with the "principles of equity" promoted in section 35, provide proper redress to an otherwise under compensated plaintiff where imprecise damage calculations fail to do justice,

particularly where the imprecision results from defendant's conduct. *Boston Professional Hockey*, 597 F.2d at 77 (increased damages justified when defendant withholds or misrepresents available sales records or otherwise obstructs ascertainment of damages); accord *P.K. Sorren*, 546 F.Supp. at 998-99 (award of excess damages appropriate where "record strongly indicates that plaintiff's damages and defendants' profits were both greater than the amounts conclusively proven."). We find no evidence of information obstruction by Two Pesos, but we acknowledge the trial court's superior capacity to discern the elements of equitable compensation. Given the substantial evidence of willful infringement,²⁰ the jury finding of

²⁰ The weight of the evidence persuades us, as it did Judge Singleton, that Two Pesos brazenly copied Taco Cabana's

trade secret misappropriation, and the evidence of substantial damages not

reflected in the jury award, we cannot say that Judge Singleton abused his discretion.

E. Attorney Fees.

[31] Section 35 of the Lanham Act permits an award of attorney's fees in "exceptional cases." The judicial definition of an exceptional case often

appears indistinguishable from the standard for enhancement of damages: some form of willful, deliberate, or fraudulent conduct. Indeed, Taco Cabana invites us to apply the same standard, employ the same evidence, and affirm on that basis. We decline to conflate the standards because some cases may well warrant one form of recovery and not the other,²¹ and we do not wish so to regiment the

successful trade dress, and proceeded to expand in a manner that foreclosed several lucrative markets within Taco Cabana's natural zone of expansion. Cf. *Weiner King, Inc. v. Wiener King Corp.*, 615 F.2d 512, 522 (C.C.P.A. 1980) (junior user's knowledge of senior user coupled with attempt to box in senior user by cutting off expansion can support finding of bad faith in registration hearing).

21. See, e.g., *Playboy Enterprises, Inc. v. Bacarat Clothing Co.*, 692 F.2d 1272, 1276 (9th Cir. 1982) (affirming district court's refusal to enhance damages, but reversing refusal to award attorneys' fees).

discretion of district court seeking equity.

[32] We review for abuse of discretion, mindful that "the district court heard the evidence, saw the witnesses, and appraised their motives. Based on its personal observations, the court found that [defendant's] conduct was 'certainly intentional' and designed to reduce [plaintiff's] sales." *Nu-Pulse*, 853 F.2d at 547 (affirming award fees); see also *Shen Mfg.*, 673 F.Supp. at 1207 (defendant's intentional copying makes case "exceptional" and entitles plaintiff to punitive damages and attorneys' fees). Some conscious good-faith effort by Two Pesos to create elements of dissimilarity might have rendered this case "unexceptional." *Roulo v.*

Russ Berrie & Co., 886 F.2d 931, 942 (7th Cir. 1989), cert. denied, -- U.S. --, 110 S.Ct. 1124, 107 L.Ed.2d 1030 (1990). But Two Pesos earns no such saving grace. Given the evidence of brazen imitation and rapid market foreclosure, we find no abuse of discretion in the award of attorneys' fees.²²

F. Trade-Secret Damages.

[33, 34] Trade-secret misappropriation damages typically embrace some form of royalty. *Metallurgical*, 790 F.2d at 1208 ("reasonable royalty" aptly defines measure of damages in trade secret misappropriation case); *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 737 (5th Cir.) (affirming award of damages that represented reasonable per

22. The parties stipulated that attorneys' fees of \$937,500 were reasonable if the district court could properly award fees.

unit royalty), *cert. denied*,
458 U.S. 1108, 102 S.Ct.
3488, 73 L.Ed.2d 1369
(1982). With the evidence
of sales in the scores of
millions and impressive
profits, the jury's single
award of \$150,000 is not
unreasonable.

The judgment of the
district court is
AFFIRMED.

Appendix B

**IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

TACO CABANA INTERNATIONAL, INC.	\$	
and TACO CABANA, INC.,	\$	
PLAINTIFF,	\$	
	\$	
VS.	\$	C.A. NO.
	\$	H-87-0026
TWO PESOS, INC.,	\$	
DEFENDANT.	\$	

ORDER

Pursuant to Rule 58 of the Federal Rules of Civil Procedure, it is hereby:

ORDERED, ADJUDGED and DECREED that the Jury's October 26, 1988, Special Verdict awarding \$150,000 to Taco Cabana for Two Pesos' misappropriation of its trade secrets and \$934,300 to Taco Cabana for Two Pesos' infringement of Taco Cabana's trade dress is entered this date. It is further

ORDERED, ADJUDGED and DECREED that having determined from the testimony of the witnesses and from the evidence presented during the trial that Two Pesos intentionally

and deliberately infringed Taco Cabana's trade dress, Taco Cabana is awarded damages of \$1,868,600 for trade dress infringement along with the \$150,000 for trade secret misappropriation. The total damage award is \$2,018,600. It is further

ORDERED, ADJUDGED and DECREED that all the following changes be made to all Two Pesos' restaurant in operation in Texas as of the date of this Final Judgment:

(1) Exterior - Install a step-up or other roofline structure which eliminates the "step-down" effect between the two box silhouette structures as well as the drive-through roofline (make all roof elevations of the same height).

(2) Exterior - Eliminate the stripes around the top of the building and use only white neon lighting if any neon lighting is used.

(3) Exterior - Change to a solid color awning by painting existing awnings or replacing them with solid color awnings.

(4) Exterior - Install at least three false or painted windows on the exterior side walls of the restaurants or,

alternatively, use the trade dress of Two Pesos' Phoenix store on the side walls of the restaurants.

(5) Interior - Paint the front face of the pickup counter and both sides of the wall between the interior dining and the interior patio white or the grey/green color used in the Two Pesos Tidwell Street restaurant in Houston. It is further

ORDERED, ADJUDGED and DECREED that Two Pesos display a sign both on the interior and exterior of all Two Pesos restaurants which states the following:

NOTICE

TACO CABANA originated a restaurant concept which Two Pesos was found to have unfairly copied. A Court Order requires us to display this sign to inform our customers of this fact to eliminate the likelihood of confusion between our restaurants and those of TACO CABANA.

These signs shall have one inch black letters on a white background. The exterior sign shall be prominently placed in the area of the customer's entrance and the interior sign shall

be prominently placed in the ordering area. Both signs shall be in place in all Two Pesos restaurants within 30 days of this Final Judgment and shall remain in place for at least one year. It is further

ORDERED, ADJUDGED and DECREED that all of the above changes be completed within eighteen months on Two Pesos' restaurants in operation in Texas as of the date of the Final Judgment and that all of the above changes be completed on existing Two Pesos' restaurants in Texas at the rate of at least ten restaurants per six months beginning with the Houston Two Pesos' restaurants. It is further

ORDERED, ADJUDGED and DECREED that with respect to any Two Pesos' restaurants which are not yet in operation as of the date of this Final Judgment and, before any such stores commence operation, that all of the changes (1) through (5) above be made in addition to all of the following changes:

(7) Exterior - Make the outside doors flush with the exterior walls or with an exterior projecting rectangular vestibule.

(8) Exterior - Eliminate garage doors on two of the three sides between inside and outside patios. This permits an exterior patio opening fully on the side where the garage doors are located. The side having the garage doors is optional. As an alternative to the elimination of the garage doors, design the interior patio in a shape other than a square or rectangle, such as circular, elliptical or the like (see, e.g., the shape of the Sombrero Rosa inside patio).

(9) Interior - Eliminate the oblique order counter and install it parallel to or at right angles to the sides of the building. It is further

ORDERED, ADJUDGED and DECREED that the Defendant shall report in writing to the Court the progress of all the changes ordered to existing restaurants on a quarterly basis until all such changes to Defendant's company and

franchise restaurants in operation in Texas as of the date of this Final Judgment have been completed. It is further

ORDERED, ADJUDGED and DECREED that having determined that this case is exceptional, in view of the deliberate infringement and misappropriation of Taco Cabana's trade dress by Defendant Two Pesos, Plaintiffs are awarded their attorney's fees in the prosecution of their trade dress claims and in defense of Defendant's dismissed counterclaims, the amount of such attorney's fees to be determined at a hearing set for January 23 1989, at 9:30 a.m. at Courtroom No. 6. 515 Rusk, Houston, Texas.

Signed this 30th day of December, 1988, at Houston, Texas.

/s/ John V. Singleton
UNITED STATES DISTRICT

JUDGE

Appendix C

**IN THE UNITED STATES COURT OF
APPEALS FOR THE FIFTH CIRCUIT**

No. 89-2203

TACO CABANA INTERNATIONAL, INC.,

Plaintiff-Appellee

versus

TWO PESOS, INC.,

Defendant-Appellant.

Appeal from the United States District Court
for the Southern District of Texas

**ON PETITION FOR REHEARING AND
SUGGESTION FOR REHEARING EN BANC**

(Opinion June 11, 5 Cir. 1991 __F.2d__)
(July 22, 1991)

Before REAVLEY, GARWOOD and BARKSDALE, Circuit Judges.

PER CURIAM:

(✓) The Petition for Rehearing is DENIED and no member of this panel nor Judge in regular active service on the Court having requested that the Court be polled on rehearing en banc, (Federal Rules of Appellate Procedure and Local Rule 35) the Suggestion for Rehearing En Banc is DENIED.

() The Petition for Rehearing is DENIED and the Court having been polled at the request of one of the members of the Court and a majority of the Circuit Judges who are in regular active service not having voted in favor of it, (Federal Rules of Appellate Procedure and Local Rule 35) the Suggestion for Rehearing En Banc is also DENIED.

() A member of the Court in active service having requested a poll on the reconsideration of this cause en banc, and a majority of the judges in active service not having voted in favor of it, rehearing en banc is DENIED.

ENTERED FOR THE COURT:

/s/
United States Circuit Judge

Appendix D

List of Entities Related to or affiliated With Corporate Parties.

There are no entities related or affiliated with the parties.

Certificate of Service

The undersigned counsel of record for Petitioner certifies that he is a member of the Bar of this Court and that to his knowledge, on October 18, 1991, within the permitted time, three copies of the Petition for a Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit were served upon counsel for Respondents by mail, first-class postage prepaid, in Phoenix, Arizona, addressed as follows:

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